

Message Text

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PAGE 01 PARIS 25358 01 OF 04 311922Z

ACTION EB-08

INFO OCT-01 EUR-12 EA-12 IO-14 ISO-00 SP-02 USIA-15
AID-05 NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04
OPIC-06 LAB-04 SIL-01 AGRE-00 /118 W
-----003964 312017Z /70

R 311856Z AUG 77

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 7910

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION GENEVA

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 04 PARIS 25358

USMTN: PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 23817

SUMMARY

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PAGE 02 PARIS 25358 01 OF 04 311922Z

PM BARRE HAS JUST COMPLETED HIS FIRST YEAR IN
OFFICE, FAIRLY SATISFIED WITH THE ACCOMPLISHMENTS
TO DATE: THE STABILITY OF THE FRANC, THE IMPROVEMENT
IN EXTERNAL TRADE AND THE LOW RATE OF WAGE INCREASE.
HOWEVER, ONE OF HIS MAJOR GOALS, A REDUCTION IN THE
RATE OF INFLATION, HAS SO FAR BEEN BEYOND HIS REACH;
DURING THE FIRST SEVEN MONTHS OF THIS YEAR, PRICES

INCREASED BY 5.9 PERCENT AND FOR THE TWELVE MONTHS
ENDING IN JULY BY 10.1 PERCENT. END SUMMARY

2. BARRE: RESULTS OF HIS FIRST YEAR IN OFFICE

SUMMING UP THE PROGRESS MADE AT THE END OF HIS FIRST
YEAR AS PRIME MINISTER, M. BARRE SAID THAT FRANCE
HAS ONCE AGAIN FOUND SOME ROOM FOR MANEUVER. HE
FINDS THE RESULTS SATISFACTORY. THE FOUR
FUNDAMENTAL OBJECTIVES WHICH THE GOVERNMENT
FIXED FOR ITSELF HAVE BEEN ATTAINED. THE FRANC
HAS STABILIZED, AND FRANCE'S MONETARY RESERVES ARE
BEGINNING TO BE RECONSTITUTED. FOREIGN TRADE HAS
VERY MUCH IMPROVED. THE CEILING OF FF 55 BILLION
ON PETROLEUM PURCHASES WILL BE ACHIEVED. THE
FRENCH HAVE RESPECTED THE NECESSITY TO MODERATE
THE INCREASE IN THEIR INCOMES. FINALLY, MR. BARRE
SAID THAT THIS HAS ALL BEEN ACCOMPLISHED WHILE
AVOIDING A RECESSION.

3. CHIRAC CALLS FOR SELECTIVE STIMULUS

JACQUES CHIRAC, PRESIDENT OF THE RPR, THE FORMER
GAULLIST PARTY, HAS CALLED FOR A SELECTIVE STIMULUS
OF THE ECONOMY IN THE NEAR SHORT TERM. HE SAID
THAT IT IS INDISPENSABLE THAT IMMEDIATE STEPS BE
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PAGE 03 PARIS 25358 01 OF 04 311922Z

TAKEN TO RELEASE THE REST OF THE SPECIAL
CONTINGENCY FUND, TO IMPROVE THE CONDITIONS OF
CREDIT, AND TO MAKE CERTAIN POSITIVE GESTURES
REGARDING WAGES WITH THE RENEWAL OF THE COLLECTIVE
BARGAINING PROCESS IN SEPTEMBER.

4. 0.9 PERCENT RATE OF INFLATION IN JULY

JULY POSTED ANOTHER DISAPPOINTING RESULT FOR THE PRICE
INDEX WITH A 0.9 PERCENT INCREASE. THE RATE OF PRICE
INCREASE FOR FOOD PRODUCTS WAS 0.9 PERCENT, FOR
MANUFACTURED PRODUCTS 0.6 PERCENT, AND FOR SERVICES
1.1 PERCENT. IN PART THIS COULD BE EXPLAINED BY
THE INCREASE IN PRICES OF CERTAIN SERVICE ITEMS
SUCH AS THE QUARTERLY INCREASE IN RENTS. HOWEVER,
M. BOULIN, DELEGATE MINISTER TO THE MINISTRY OF
ECONOMICS AND FINANCE, ADMITTED THAT THE PRICE
INCREASES IN JULY WERE NEVERTHELESS QUITE HIGH.
EVEN IF CERTAIN SEASONAL PHENOMENA HAD CONTRIBUTED
TO SWELLING SOMEWHAT THE JULY INDEX, HE
CONSIDERED ARGUMENTS OF THIS TYPE TO BE LESS AND
LESS JUSTIFIED. HE BELIEVED THAT CERTAIN PRICES

SHOULD FALL, NOTABLY FOR AGRICULTURAL PRODUCTS. HE
SAID THAT HE WOULD ENSURE THAT PRICE DECREASES IN
PRODUCTION AND IMPORTS WOULD BE RAPIDLY PASSED ON

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PAGE 01 PARIS 25358 02 OF 04 311920Z
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UNCLAS SECTION 02 OF 04 PARIS 25358

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TO THE CONSUMER.

5. REAL HOURLY WAGES INCREASED BY ONLY 0.25 PERCENT IN
SECOND QUARTER

THE DECELERATION IN HOURLY WAGE INCREASES NOTED
IN THE FIRST QUARTER WAS CONFIRMED IN THE SECOND
QUARTER. HOURLY WAGES INCREASED BY 3.3 PERCENT,
AS COMPARED TO 4.0 PERCENT IN THE SECOND QUARTER OF
1976. DURING THE FIRST QUARTER WAGES INCREASED BY
2.3 PER CENT COMPARED TO 4.0 PERCENT

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PAGE 02 PARIS 25358 02 OF 04 311920Z

FOR THE SAME PERIOD LAST YEAR.

THE DROP IN REAL WAGE INCREASES WAS EVEN SHARPER. PRICES INCREASED BY 3.05 PERCENT DURING THE SECOND QUARTER, RESULTING IN AN INCREASE IN PURCHASING POWER OF ONLY 0.25 PERCENT, COMPARED TO A 2.25 PERCENT INCREASE DURING THE SECOND QUARTER OF 1976. FOR THE FIRST SEMESTER THE INCREASE IN REAL PURCHASING POWER WAS 0.6 PERCENT.

6. FURTHER DECREASE IN PRICES OF IMPORTED
PRIMARY MATERIALS

THE INTERNATIONAL PRICES OF BOTH AGRICULTURAL AND INDUSTRIAL PRIMARY MATERIALS IMPORTED BY FRANCE FELL AGAIN IN JULY. FOR THE INDEX AS A WHOLE PRICES WERE 4.0 PERCENT LOWER THAN IN JUNE AND 18.7 PERCENT HIGHER THAN A YEAR AGO. IMPORTED AGRICULTURAL PRIMARY MATERIALS WERE 5.7 PERCENT LOWER THAN IN JUNE AND 51.2 PERCENT HIGHER THAN A YEAR AGO WHILE IMPORTED INDUSTRIAL MATERIALS WERE 1.5 PERCENT LOWER THAN IN JUNE AND 9.6 PERCENT LOWER THAN IN JULY 1976.

7. TRADE DEFICIT NARROWS IN JULY

THE SEASONALLY ADJUSTED TRADE DEFICIT IN JULY WAS FF 797 MILLION, DOWN FROM FF 2,321 MILLION IN JUNE. IMPORTS WERE FF 26.7 BILLION, 6.8 DECREASE FROM THE PREVIOUS MONTHS, WHILE EXPORTS WERE FF 25.9 BILLION, 1.6 PERCENT DECREASE. AS OF JULY THE TOTAL TRADE DEFICIT FOR 1977 WAS FF 9.1 BILLION.

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PAGE 03 PARIS 25358 02 OF 04 311920Z

8. VOLUME OF FRENCH IMPORTS FALLS DURING FIRST SIX
MONTHS

INSEE TRADE STATISTICS FOR THE SECOND QUARTER CONFIRM THAT FRENCH EXPORTS HAVE STABILIZED AT A RELATIVELY HIGH LEVEL WHILE THERE HAS BEEN A SHARP DECLINE IN THE VOLUME OF IMPORTS. THE VOLUME OF EXPORTS IN THE SECOND QUARTER WAS 3.9 PERCENT HIGHER THAN IN THE SAME PERIOD A YEAR AGO AND 1.2 PERCENT HIGHER THAN SIX MONTHS

AGO. THE VOLUME OF IMPORTS WAS 1.3 PERCENT HIGHER THAN A YEAR AGO BUT 5.5 PERCENT LOWER THAN 6 MONTHS AGO. DURING THE SAME PERIOD THERE WAS A DECELERATION IN THE RATE OF PRICE INCREASES FOR FRENCH EXPORTS AND IMPORTS. THE PRICES OF FRENCH EXPORTS IN THE SECOND QUARTER OF THIS YEAR WERE 11.7 PERCENT HIGHER THAN A YEAR AGO AND 3.3 PERCENT HIGHER THAN THE FOURTH QUARTER OF 1976, WHILE THE PRICES OF IMPORTS WERE RESPECTIVELY 15.6 PERCENT AND 4.6 PERCENT HIGHER.

9. INDUSTRIAL PRODUCTION INCREASED IN JUNE

THE MONTHLY INDEX OF INDUSTRIAL PRODUCTION INCREASED FROM 124 IN MAY TO 128 IN JUNE. ON THE BASIS OF A THREE-MONTH MOVING AVERAGE, INDUSTRIAL PRODUCTION WAS AT THE SAME LEVEL DURING THE THREE-MONTH PERIODS ENDING IN MAY AND JUNE AND WAS 1.5 PERCENT LOWER THAN FOR THE THREE-MONTH PERIOD ENDING IN JANUARY.

INDUSTRIAL PRODUCTION INDEX
(THREE MONTH MOVING AVERAGE, SEASONALLY ADJUSTED, 1970
EQUALS 100)

	APR.	MAY	JUNE
TOTAL (EXCLUDING BUILDING AND PUBLIC WORKS)	128	126	126
ENERGY	122	120	120

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PAGE 04 PARIS 25358 02 OF 04 311920Z

INTERMEDIATE GOODS	119	117	117
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PAGE 01 PARIS 25358 03 OF 04 311917Z

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UNCLAS SECTION 03 OF 04 PARIS 25358

USEEC

CONSUMER GOODS	141	140	139
CAPITAL GOODS	150	150	148

THE QUARTERLY INDEX OF INDUSTRIAL PRODUCTION, WHICH
COVERS A BROADER RANGE OF INDUSTRIES THAN DOES THE
MONTHLY INDEX, REGISTERED A 3.2 PERCENT INCREASE IN
INDUSTRIAL PRODUCTION BETWEEN THE FOURTH QUARTER OF
1976 AND THE FIRST QUARTER OF 1977.

FRENCH INDUSTRIAL PRODUCTION IN 1976 AND FIRST QUARTER
1977

UNCLASSIFIED

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PAGE 02 PARIS 25358 03 OF 04 311917Z

(QUARTERLY INDEX; SEASONALLY ADJUSTED, 1970 EQUALS 100)

1976	1977
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I	II	III	IV	I
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TOTAL (EXCLUDING BUILDING					
AND PUBLIC WORKS)	122	123	125	125	129
ENERGY	119	114	121	121	125
INTERMEDIATE GOODS	112	116	120	117	122
CONSUMPTION GOODS	123	127	127	131	131
CAPITAL GOODS	142	137	135	136	142

10. MAJOR IMPROVEMENT IN CURRENT ACCOUNT IN SECOND
QUARTER

PROVISIONAL OFFICIAL BALANCE OF PAYMENTS
DATA FOR THE SECOND QUARTER OF 1977 SHOWS A MAJOR
IMPROVEMENT IN THE CURRENT ACCOUNT. ON AN
UNADJUSTED BASIS THE CURRENT ACCOUNT DEFICIT DECLINED
FROM FF 8.3 BILLION IN THE FIRST QUARTER TO FF 2.2
BILLION IN THE SECOND. THE TRADE DEFICIT FELL FROM
FF 7.0 BILLION TO FF 2.0 BILLION (FROM FF 6 BILLION
TO FF 3.5 BILLION ON A SEASONALLY ADJUSTED BASIS).
THE SERVICE ACCOUNT ALSO GREATLY IMPROVED, POSTING
A SURPLUS OF FF 4.1 BILLION FOR THE FIRST SEMESTER
AS COMPARED TO FF 1.7 BILLION FOR THE SAME PERIOD
LAST YEAR. THIS INCREASE WAS IN LARGE PART DUE TO
THE INCREASE IN NET RECEIPTS BY FRENCH COMPANIES ON
THEIR INVESTMENTS ABROAD AND BY THE INCREASE IN
INTEREST ON BANK PLACEMENTS ABROAD.

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PAGE 03 PARIS 25358 03 OF 04 311917Z

AFTER A NET OUTFLOW OF FF 1.9 BILLION IN LONG-TERM
CAPITAL IN THE FIRST QUARTER, THERE WAS A NET INFLOW
OF FF 1.5 BILLION IN THE SECOND QUARTER. PORTFOLIO
AND DIRECT LONG TERM INVESTMENT SHOWED A DEFICIT
OF ONLY FF 70 MILLION IN CONTRAST TO THE VERY LARGE
OUTFLOWS LAST YEAR. THIS IS FURTHER INDICATION
OF NO SIGNIFICANT RECENT CAPITAL OUTFLOWS FROM
FRANCE. DRAWINGS OF FOREIGN LOANS BY FRENCH
COMPANIES INCREASED FROM FF 4.3 BILLION IN THE
FIRST QUARTER TO FF 6.3 BILLION. EXPORT CREDITS
SHOWED LITTLE CHANGE AT THE HIGH LEVEL OF FF 4.5
BILLION. THE SURPLUS ON THE SHORT-TERM CAPITAL
ACCOUNT DECLINED FROM FF 6.8 BILLION IN THE FIRST
QUARTER TO FF 3.4 BILLION. THE RECENT STRENGTH OF
THE FRENCH FRANC REFLECTS ALL THE ABOVE CHANGES OF
WHICH THE CHANGE IN PRIVATE LONG TERM CAPITAL HAS
BEEN THE MOST NOTEWORTHY.

FRENCH BALANCE OF PAYMENTS

(IN BILLIONS OF FRANCS; DATA FOR SECOND QUARTER 1977
PRELIMINARY; DATA FOR FOURTH QUARTER 1976 AND
FIRST QUARTER 1977 REVISED)

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PAGE 01 PARIS 25358 04 OF 04 311915Z

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UNCLAS SECTION 04 OF 04 PARIS 25358

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76III 76IV 1976 77I 77II

TRADE BALANCE - 8.8 - 8.9 -22.7 - 7.0 - 2.0
NET SERVICES 0.0 2.7 4.5 1.4 2.6
BAL. ON GOODS & SERVICES -8.8 - 6.2 -18.2 - 5.6 0.6
NET TRANSFERS - 3.3 - 2.4 -10.9 - 2.7 - 2.8
BALANCE ON CURRENT ACCT -12.1 - 8.6 -29.1 - 8.3 - 2.2
LONG TERM CAPITAL - 2.5 2.3 - 5.3 - 1.9 1.5
BASIC BALANCE - 14.6 - 6.3 -34.4 -10.2 - 0.7
SHORT TERM CAPT.,
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PAGE 02 PARIS 25358 04 OF 04 311915Z

MONETARY TRANSFERS PLUS

ERRORS & OMISSIONS 7.6 4.8 15.3 6.8 3.4
BALANCE - 7.0 - 1.5 -19.1 - 3.4 2.7

11. LONG TERM EXTERNAL BORROWING

THE FOLLOWING LONG-TERM EXTERNAL FRENCH BORROWINGS
WERE NOTED IN THE PRESS DURING THE REPORTING PERIOD:

(1) BANQUE FRANCAISE DU COMMERCE EXTERIEUR, \$30
MILLION, 7 YEARS, FLOATING RATE;

(2) COMPAGNIE GENERALE MARITIME ET FINANCIERE, \$20
MILLION, 6 YEARS, FLOATING RATE.

12. MONEY SUPPLY GROWS BY 11.3 PERCENT FOR YEAR
ENDING IN MAY

THE SEASONALLY ADJUSTED MONEY SUPPLY IN MAY WAS: M2,
FF 898.3 BILLION (0.9 PERCENT INCREASE FROM APRIL);
M1, FF 460.2 BILLION (0.8 PERCENT INCREASE)
AND QUASI-MONEY, FF 435.8 (0.7 PERCENT INCREASE).
BOTH SEASONALLY ADJUSTED AND UNADJUSTED M2 GREW BY
11.3 PERCENT FOR THE 12-MONTH PERIOD ENDING IN MAY.

OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS PARIS

23764 CAPITAL FLIGHT: PRESS STORIES VERSUS EVIDENCE
23716 PARIS CLUB MEETING ON SIERRA LEONE
24287 IFI COMPENSATION
24679 FORECAST OF FRENCH ECONOMY FOR 1977 AND FIRST
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PAGE 03 PARIS 25358 04 OF 04 311915Z

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Message Attributes

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Copy: SINGLE
Sent Date: 31-Aug-1977 12:00:00 am
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
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Drafter: n/a
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Errors: N/A
Expiration:
Film Number: D770315-0493
Format: TEL
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977083/aaaaacfp.tel
Line Count: 475
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/6c3e1054-c288-dd11-92da-001cc4696bcc
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